KOMISAUN REFORMA FISKAL

Fiscal Reform Program

Fiscal Reform Commission

Fiscal Reform Overview

- Council of Ministers in August 2015 passed a resolution establishing the **Fiscal Reform Commission (FRC)**.
- The FRC is responsible for coordinating and overseeing the implementation of the **Fiscal Reform Plan.**
- The Fiscal Reform Plan mandates the FRC to lead efforts in :
  - Domestic Revenue Reform
  - Expenditure Reform
- The FRC develops and coordinates policy proposals and legislation for consideration by the **Inter-Ministerial Council** for submission to the Council of Ministers and Parliament.
- The FRC works in coordination with the implementing institutions:
  - **Directorate General of Revenues (DGR)**
  - **Directorate General of Customs (DGC)**
  - **Other Ministries and States institutions that collect revenue**

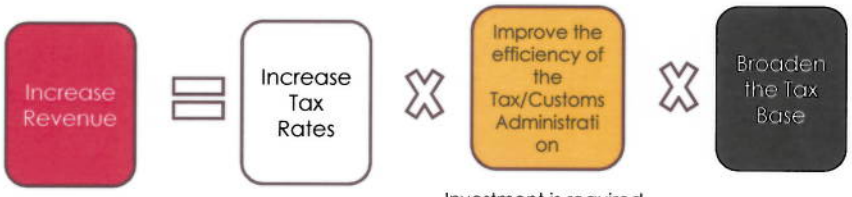
Fiscal Reform Overview

- The work of the Fiscal Reform has concentrated on the **Domestic Revenue Reform.**
- However, in recent weeks, the FRC has started working with ongoing Technical Assistance in the water and energy sectors to address cost reduction and cost recovery issues.
- The main **target** is to **increase domestic revenue to 15% of non-oil GDP by 2020.**

Domestic Revenue Reform Areas of Work

- The Domestic Revenue reform is organized in **four** main areas:
  - Tax Policy reform
  - Fees and Charges Reform
  - Tax Administration Reform
  - Customs Administration Reform and Trade Facilitation

Necessary measures to increase domestic revenue collections



Efforts in the following three areas will allow increases in Domestic Revenue Collection to 15% of non-oil GDP in 2020. However, this will require significant investments.

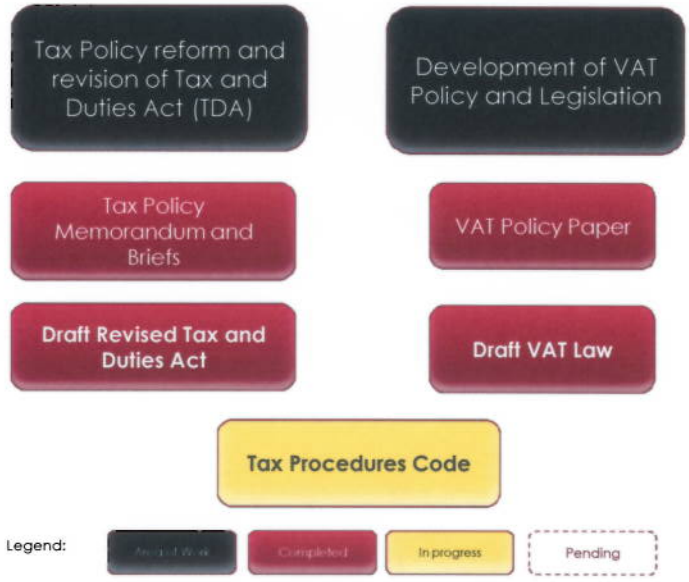
To increase revenue it is necessary to increase rates. The new tax legislation includes several rate increases and the introduction of some new taxes.

Investment is required to modernize and improve the efficiency of the Tax Administration and the Customs Administration. Changes in IT, legislation, infrastructure, and orrganization are required.

Revenues depend on the size of the tax base. Increasing the tax base requires economic diversification and growth in the different economic sectors.

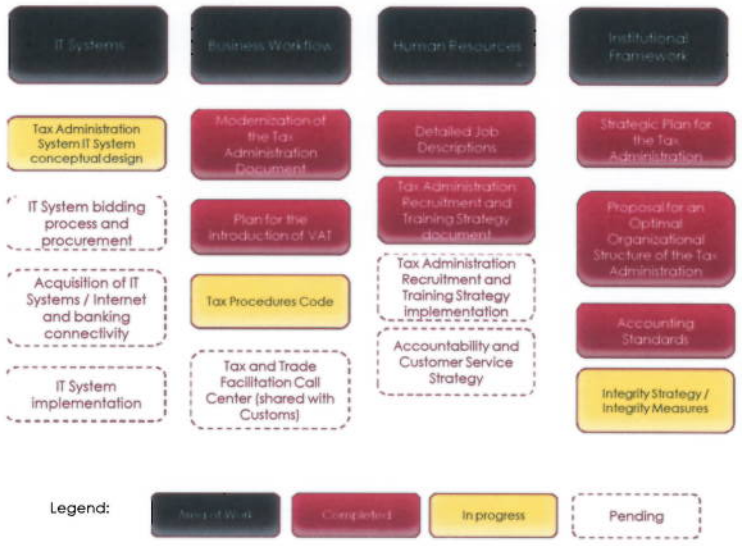
Increase Tax Rates

Tax Policy Reform Progress

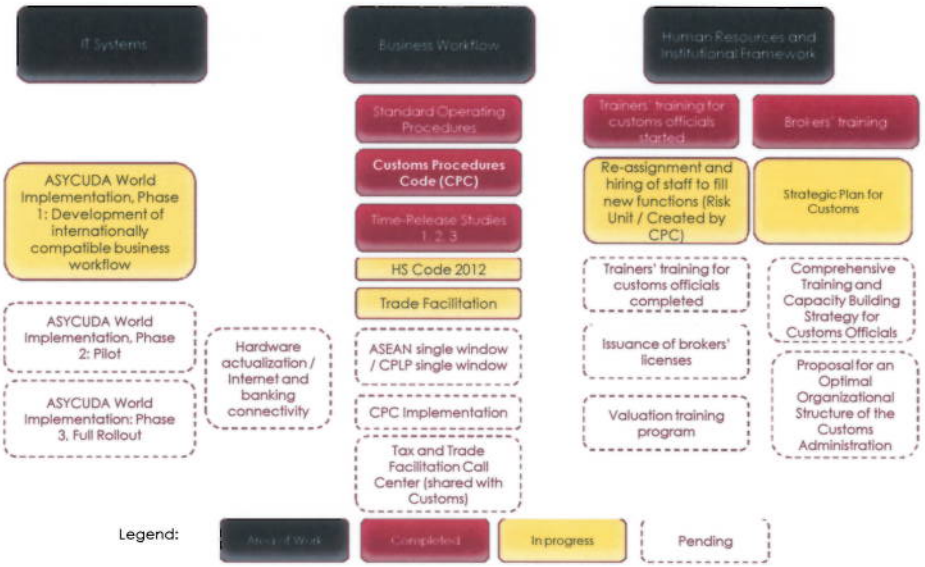


Improve the efficiency of the Tax and Customs Administrations

Tax Administration Reform Progress



Customs Reform Progress



Broaden the Tax Base

Initiatives to Broaden the Tax Base

- **The new Tax Legislation is pro-investment.** The revised **General Tax Law** includes generous incentives in the form of **employment and training tax credits** (for timorese employees), and the **VAT law zero-rates exports**, effectively turning the whole country into an export free-zone.
- **Trade Facilitation Commission.** The FRC is taking an active role in Trade Faciliation, working on initiatives such as the National Single Window, that will pave the way for increased investment.
  - The **Tibar Bay Port** will increase the ability of the country to handle a large volume of international trade, and will allow the improved customs processes being developed as part of the Fiscal Reform to be applied more efficiently.
- **Industrial Policy.** The Industrial Policy, being developed prepared by MCIA and UNDP as a framework to facilitate the generation of diverse business in Timor.

Initiatives to Broaden the Tax Base

- **MCIA funds for occupation and enterpreneurship.** MCIA has a Social Business Fund of USD 480,000 to support enterpreneurs and small businesses. These funds are limited and **donors are encouraged to provide additional support**, as these funds cover:
  - Developing Businesses and Marketing Plans
  - Receiving training on accounting techniques
  - Financing: grants between 20k to 180k
- **Other measures to increase wealth and job creation.** The governement is already carrying out or considering a number of measures in this regard, for example:
  - **Government is considering the criteria for the provision of loan guarantees for financing at affordable rates.**
  - **ADB is providing support in the development of a secure transactions law to improve access to credit.**

Main Expected Outcomes for 2016